

Truett-Hurst, Inc.
Form 10-Q
November 14, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended September 30, 2016

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 333-187164

TRUETT-HURST, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

46-1561499
(I.R.S. employer
identification number)

125 Foss Creek Circle, Healdsburg, California 95448
(Address of principal executive offices) (zip code)

(707) 431-4423

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

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Indicate the number of shares outstanding of each of the Issuer's classes of common stock, as of the latest practicable date.

| Class A | Number of Shares Outstanding |
|---|-------------------------------------|
| Common stock, \$0.001 par value per share | 4,306,609 |

TRUETT-HURST, INC. AND SUBSIDIARY

FORM 10-Q

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PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TRUETT-HURST, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data/per share data)

| | September 30, 2016 (unaudited) | June 30, 2016 |
|---|-----------------------------------|------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 4,324 | \$4,043 |
| Accounts receivable | 3,890 | 2,678 |
| Inventories, net | 21,666 | 19,918 |
| Bulk wine deposits | - | 271 |
| Other current assets | 215 | 125 |
| Total current assets | 30,095 | 27,035 |
| Property and equipment, net | 5,560 | 5,583 |
| Intangible assets, net | 498 | 496 |
| Other assets, net | 367 | 391 |
| Total assets | \$ 36,520 | \$33,505 |
| Liabilities and Equity | | |
| Current liabilities: | | |
| Lines of credit | \$ 10,034 | \$10,311 |
| Accounts payable | 4,055 | 1,351 |
| Accrued expenses | 976 | 820 |
| Depletion allowance | 612 | 610 |
| Due to related parties | 64 | - |
| Accrual for sales returns | 34 | 528 |
| Current maturities of long term debt | 512 | 475 |
| Total current liabilities | 16,287 | 14,095 |
| Long term debt, net of current maturities | 3,363 | 3,189 |
| Total liabilities | 19,650 | 17,284 |

Commitments and contingencies (Note 5)

Equity:

Stockholders' equity

| | | |
|---|-----------|------------|
| Preferred stock, par value of \$0.001 per share, 5,000,000 shares authorized, none issued and outstanding at September 30, 2016 and June 30, 2016 | - | - |
| Class A common stock, par value of \$0.001 per share, 15,000,000 authorized, 4,306,609 issued and outstanding at September 30, 2016 and June 30, 2016 | 4 | 4 |
| Class B common stock, par value of \$0.001 per share, 1,000 authorized, 7 issued and outstanding at September 30, 2016 and June 30, 2016 | - | - |
| Additional paid-in capital | 15,889 | 15,794 |
| Accumulated deficit | (5,283 |) (5,600) |
| Total Truett-Hurst, Inc. equity | 10,610 | 10,198 |
| Noncontrolling interest | 6,260 | 6,023 |
| Total equity | 16,870 | 16,221 |
| Total liabilities and equity | \$ 36,520 | \$ 33,505 |

See accompanying notes to condensed consolidated financial statements.

TRUETT-HURST, INC. AND SUBSIDIARY**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except share data/per share data)****(unaudited)**

| | Three Months Ended September 30, | |
|---|-------------------------------------|----------|
| | 2016 | 2015 |
| Sales | \$6,102 | \$6,533 |
| Less excise tax | (216) | (163) |
| Net sales | 5,886 | 6,370 |
| Cost of sales | 4,056 | 4,220 |
| Gross profit | 1,830 | 2,150 |
| Operating expenses: | | |
| Sales and marketing | 1,224 | 1,438 |
| General and administrative | 812 | 891 |
| Loss (gain) on disposal of assets | 17 | (1) |
| Total operating expenses | 2,053 | 2,328 |
| Loss from operations | (223) | (178) |
| Other income (expense): | | |
| Interest expense, net | (80) | (83) |
| Gain on termination of lease | 844 | - |
| Other | 14 | (93) |
| Total other income (expense), net | 778 | (176) |
| Net income (loss) before income taxes | 555 | (354) |
| Income tax expense | 1 | - |
| Net income (loss) from continuing operations | 554 | (354) |
| Income from discontinued operations, net of tax | - | 16 |
| Net income (loss) attributable to Truett-Hurst, Inc. and H.D.D. LLC | 554 | (338) |
| Net (income) loss attributable to noncontrolling interest: H.D.D. LLC | (237) | 126 |
| Net income (loss) attributable to Truett-Hurst, Inc. | \$317 | \$(212) |
| Net income (loss) per share: | | |
| Basic weighted avg shares | \$0.07 | \$(0.05) |
| Diluted weighted average shares | \$0.04 | \$- |

Weighted average shares used in computing net income (loss) per share:

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| | | |
|---------------------------------|-----------|-----------|
| Basic weighted average shares | 4,306,609 | 4,027,183 |
| Diluted weighted average shares | 7,675,917 | - |

See accompanying notes to condensed consolidated financial statements.

TRUETT-HURST, INC. AND SUBSIDIARY**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(unaudited)**

| | Three Months Ended September 30, | |
|--|--|----------|
| | 2016 | 2015 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$554 | \$(338) |
| Income from discontinued operations, net of tax | - | (16) |
| Net income (loss) from continuing operations | 554 | (354) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 200 | 154 |
| Reserve for assets to be abandoned | 127 | - |
| Stock-based compensation | 95 | 86 |
| (Gain) loss on fair value of interest rate swap | (23) | 72 |
| Loss (gain) on disposal of assets | 17 | (1) |
| Changes in operating assets and liabilities, net | | |
| Accounts receivable | (1,212) | (797) |
| Inventories | (1,748) | (2,148) |
| Bulk wine deposit | 271 | 320 |
| Other current assets | (90) | 176 |
| Accounts payable | 2,704 | 1,972 |
| Accrued expenses | 179 | 401 |
| Depletion allowance | 2 | (100) |
| Accrual for sales returns | (494) | (6) |
| Due to related parties | 64 | 200 |
| Cash provided by discontinued operations | - | 62 |
| Net cash provided by operating activities | 646 | 37 |
| Cash flows from investing activities: | | |
| Acquisition of property and equipment | (288) | (260) |
| Acquisition of intangible and other assets | (15) | (42) |
| Proceeds from sale of assets | 4 | 2 |
| Net cash used in investing activities | (299) | (300) |
| Cash flows from financing activities: | | |
| Net (payments on) proceeds from line of credit | (277) | 961 |
| Proceeds from long-term debt | 387 | 481 |

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| | | |
|---|---------|---------|
| Payments on long-term debt | (176) | (85) |
| Net cash (used in) provided by financing activities | (66) | 1,357 |
| Net change in cash and cash equivalents | 281 | 1,094 |
| Cash and cash equivalents at beginning of period | 4,043 | 1,578 |
| Cash and cash equivalents at end of period | \$4,324 | \$2,672 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | \$80 | \$81 |
| Cash paid for income taxes | \$1 | \$- |

See accompanying notes to condensed consolidated financial statements.

TRUETT-HURST, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands)

(Unaudited)

NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited interim condensed consolidated financial statements include the results of Truett-Hurst, Inc. (“THI”) and its subsidiary H.D.D. LLC (“LLC”). They have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with general instructions for quarterly reports filed on Form 10-Q and Article 8 of Regulation S-X. THI consolidates the financial results of the LLC and records a noncontrolling interest representing the portion of equity ownership in the LLC that is not attributable to THI.

On January 25, 2016, the LLC sold its fifty percent interest in The Wine Spies, LLC (“Wine Spies”) with an effective date of December 31, 2015. The results from Wine Spies, which were previously consolidated, have been deconsolidated in the unaudited interim condensed consolidated financial statements. The gain on the sale along with the current year results have been recorded in the statements of operations as part of discontinued operations. Prior periods have been accounted for on a consistent basis.

The accompanying unaudited condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for audited financial statements. The accompanying unaudited condensed consolidated financial statements were prepared on the same basis as the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2016, and, in the opinion of management, these financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods presented. The operating results for the interim period presented are not necessarily indicative of the results expected for the full fiscal year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended June 30, 2016 filed with the SEC on September 28, 2016.

Quantities or results referred to as “to date” or “as of this date” mean as of or to September 30, 2016, unless otherwise specifically noted. References to “FY” or “fiscal year” refer to the fiscal year ending on June 30th of the designated year.

TRUETT-HURST, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands)

(Unaudited)

Critical Accounting Policies and Estimates

There have been no material changes to the critical accounting policies and estimates previously disclosed in the Annual Report on Form 10-K for the fiscal year ended June 30, 2016.

Reclassifications

Certain prior period amounts in the condensed consolidated financial statements and notes thereto have been reclassified to conform to the current year presentation. These reclassifications had no effect on the reported consolidated results of continuing operations.

Accounting Pronouncements

In November 2015, the FASB issued ASU No. 2015-17: *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. The update sets forth a requirement for companies to classify deferred tax assets and liabilities as non-current amounts on the balance sheet. It is effective for financial statements issued for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The Company does not expect the adoption of this standard to have a material impact on its condensed consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02: *Leases (Topic 842)*. The standard includes a lessee accounting model that recognizes two types of leases – finance and operating leases. It requires that a lessee recognize on the balance sheet assets and liabilities for leases with lease terms of more than 12 months. The amendment is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU.

In March 2016, the FASB issued ASU No. 2016-09: *Improvements to Employee Share-Based Payment Accounting* which amends ASU 718, *Compensation – Stock Compensation*. The update sets forth an initiative to identify, evaluate, and improve areas of GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. The amendment is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those annual periods. The Company is currently evaluating the impact of this ASU.

In August 2016, the FASB issued ASU No. 2016-15: *Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments*. The update sets forth guidance on eight specific cash flow issues. The amendment is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU.

NOTE 2 – INVENTORIES

Inventories comprise:

| | September 30, 2016 | June 30, 2016 |
|------------------------------|-----------------------|---------------|
| | (in thousands) | |
| Grapes and bulk wine | \$ 9,204 | \$ 8,413 |
| Bottled wine | 12,150 | 11,262 |
| Bottling materials and other | 330 | 322 |
| | 21,684 | 19,997 |
| Less: inventory reserves | (18) | (79) |
| Total inventories | \$ 21,666 | \$ 19,918 |

TRUETT-HURST, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands)

(Unaudited)

NOTE 3 – PROPERTY AND EQUIPMENT, net

Property and equipment, net comprise:

| | September 30, 2016 | June 30, 2016 |
|---|-----------------------|---------------|
| | (in thousands) | |
| Land and land improvements | \$ 3,231 | \$ 3,231 |
| Building and improvements | 1,380 | 1,380 |
| Machinery and equipment | 2,065 | 1,935 |
| Vineyard development | 554 | 554 |
| Vineyard equipment | 88 | 88 |
| Furniture and fixtures | 277 | 262 |
| Leasehold improvements | 190 | 190 |
| Vehicles | 85 | 85 |
| | 7,870 | 7,725 |
| Less: accumulated depreciation and amortization | (2,183) | (2,142) |
| Reserve for abandoned assets | (127) | - |
| Total property and equipment, net | \$ 5,560 | \$ 5,583 |

During the quarter the Company recorded a reserve for assets that will be abandoned when the tasting room is vacated based on the litigation settlement. See Litigation section of Note 5 below.